

**REPORT OF THE AUDIT OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 1, 2008 Through April 30, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 1, 2008 Through April 30, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for McCracken County Sheriff for the period May 1, 2008 through April 30, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of 28,331,785 for the districts for 2008 taxes, retaining commissions of 920,444 to operate the Sheriff's office. The Sheriff distributed taxes of \$26,744,255 to the districts for 2008 taxes. Taxes of \$567,295 are due to the districts from the Sheriff and refunds of \$312,854 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Maintain An Accurate And Detailed Receipts Ledger
- The Sheriff Should Strengthen Internal Controls Over Financial Reporting

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Van Newberry, McCracken County Judge/Executive

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the McCracken County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 30, 2009. This tax settlement is the responsibility of the McCracken County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McCracken County Sheriff's taxes charged, credited, and paid for the period May 1, 2008 through April 30, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2010, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Van Newberry, McCracken County Judge/Executive

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Maintain An Accurate And Detailed Receipts Ledger
- The Sheriff Should Strengthen Internal Controls Over Financial Reporting

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

May 6, 2010

MCCRACKEN COUNTY
JON HAYDEN, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 1, 2008 Through April 30, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,921,373	\$ 4,143,336	\$ 11,600,383	\$ 3,712,758
Tangible Personal Property	252,134	1,301,768	2,344,945	2,845,601
Increases Through Exonerations	105	179	522	141
Franchise Taxes	80,382	200,742	469,418	
Additional Billings	7,246	8,662	37,429	10,249
Limestone, Sand and Gravel Property	60	107	307	77
Omitted Limestone, Sand and Gravel Property	1	2	7	1
Penalties	15,441	22,584	55,029	21,309
Adjusted to Sheriff's Receipt	3	48	12	1
 Gross Chargeable to Sheriff	 <u>3,276,745</u>	 <u>5,677,428</u>	 <u>14,508,052</u>	 <u>6,590,137</u>
 <u>Credits</u>				
Exonerations	15,023	21,848	58,337	19,568
Discounts	50,250	89,461	230,309	104,784
Delinquents:				
Real Estate	113,229	150,065	317,453	143,895
Tangible Personal Property	11,487	76,990	161,839	106,379
Prior Year Additional Bills	169	456	1,876	1,019
Franchise Taxes	647	4,825	10,441	
Uncollected:				
Additional Bills	215	320	973	270
Franchise Taxes	1,454	6,814	20,181	
 Total Credits	 <u>192,474</u>	 <u>350,779</u>	 <u>801,409</u>	 <u>375,915</u>
 Taxes Collected	 3,084,271	 5,326,649	 13,706,643	 6,214,222
Less: Commissions *	<u>131,369</u>	<u>182,017</u>	<u>342,666</u>	<u>264,392</u>
 Taxes Due	 2,952,902	 5,144,632	 13,363,977	 5,949,830
Taxes Paid	2,812,272	4,857,515	13,074,050	6,000,418
Refunds (Current and Prior Year)	<u>64,129</u>	<u>70,926</u>	<u>20,741</u>	<u>256,849</u>
 Due Districts or (Refunds Due Sheriff) as of Completion of Audit	 <u>\$ 76,501</u>	 <u>\$ 216,191</u>	 <u>\$ 269,186</u>	 <u>\$ (307,437)</u>

* And ** See Next Page

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY
 JON HAYDEN, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period May 1, 2008 Through April 30, 2009
 (Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$12,919,767
4.0% on	\$ 357,813
2.5% on	\$13,706,643
1% on	\$ 1,337,562

** Special Taxing Districts:

Library District	\$ 62,307
Health District	33,439
Extension District	2,799
Mental Health District	12,561
Paducah Junior College	(5,417)
Reidland Fire District	24,630
Hendron Fire District	10,489
West McCracken Fire District	32,728
Concord Fire District	16,459
Lone Oak Fire District	15,147
City of Lone Oak	10,367
Melber Fire District	<u>682</u>

Due Districts or	
(Refund Due Sheriff)	<u><u>\$ 216,191</u></u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 9, 2008 through April 30, 2009.

Note 4. Interest Income

The McCracken County Sheriff earned \$14,113 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of May 6, 2010, the Sheriff owed \$150 in interest to the school district and \$822 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The McCracken County Sheriff collected \$89,623 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office. As of May 6, 2010, the Sheriff owed \$89,623 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The McCracken County Sheriff collected \$14,670 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of May 6, 2010, the Sheriff owed \$14,670 in advertising costs and advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Van Newberry, McCracken County Judge/Executive
Honorable Jon Hayden, McCracken County Sheriff
Members of the McCracken County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the McCracken County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 30, 2009, and have issued our report thereon dated May 6, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the McCracken County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Maintain An Accurate And Detailed Receipts Ledger
- The Sheriff Should Strengthen Internal Controls Over Financial Reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 30, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The McCracken County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the McCracken County Fiscal Court, and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 6, 2010

COMMENTS AND RECOMMENDATIONS

MCCRACKEN COUNTY
JON HAYDEN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 1, 2008 Through April 30, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Through observation and inquiry, we noted inadequate segregation of duties over the franchise tax collection process as well as collections on returned checks from customers. As part of the franchise tax collection process, the bookkeeper had full responsibility for receiving and recording franchise taxes, as well as deposit preparation and franchise tax distribution. The bookkeeper was also responsible for the preparation of franchise tax bills associated with 2008 franchise tax assessments. As part of the collection on returned checks from customers, the bookkeeper was responsible for the recollection of funds from individuals and the preparation of deposits.

Segregation of duties over these functions is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

In order to adequately safeguard against the misappropriation of assets, we recommend the Sheriff segregate the duties associated with franchise tax collections and the collection on returned checks from customers. By assigning different deputies the responsibilities of receiving and recording funds, deposit preparation, tax distribution, and bill preparation, the Sheriff will eliminate the risks associated with the lack of segregation of duties as well as protect employees.

Sheriff's Response: Additional staffing in this area will be utilized to prevent error.

The Sheriff Should Maintain An Accurate And Detailed Receipts Ledger

During the course of our audit, we noted the Sheriff did not maintain a receipts ledger of tax collections. While the Sheriff's office does maintain checkout sheets containing each day's collections and copies of tax bills, these checkout sheets were not compared and reconciled to the tax collections on the monthly tax reports. As a result, taxing districts were underpaid when the original monthly property tax reports were incomplete and excluded \$1,078,836 in normal property tax collections.

Maintaining an accurate and detailed receipts ledger is essential for reconciling daily tax collections and deposits to the monthly tax reports. By reconciling the daily tax collections to the monthly reports, the Sheriff can verify the monthly tax reports are accurate and be assured that the proper amount of taxes is distributed. A detailed receipts ledger will also facilitate the reconciliation between bank receipts and disbursements and the monthly tax reports.

MCCRACKEN COUNTY
JON HAYDEN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 1, 2008 Through April 30, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued):

The Sheriff Should Maintain An Accurate And Detailed Receipts Ledger (Continued)

In order to aid in the Sheriff's tax collection process, we recommend the Sheriff start maintaining an accurate and detailed receipts ledger. This receipts ledger should be detailed enough to reconcile daily tax collections to bank deposits. It should also be detailed enough to reconcile daily tax collections to the monthly tax report for each taxing district. By making such reconciliations, the Sheriff can be assured that monthly tax collections are accurately reported and that taxes are distributed properly.

Sheriff's Response: Comment noted.

The Sheriff Should Strengthen Internal Controls Over Financial Reporting

Prior to necessary audit adjustments, the Sheriff's 2008 tax settlement was materially misstated. This misstatement was due to both deficiencies in the computer tax software or an understanding of how to operate it, and human error. As a result, the Sheriff's 2008 tax settlement understated taxes collected by \$1,157,913.

Strong internal controls over financial reporting are needed in order to insure accurate reporting of tax collections. By accurately reporting tax charges and credits, the Sheriff can be sure that taxes have been distributed properly. Also, accurate financial reporting increases audit efficiency, which decreases audit costs.

Because of the misstatements noted on the Sheriff's 2008 tax settlement, we recommend the Sheriff strengthen internal controls over financial reporting. Suggested controls include a thorough review of the Sheriff's annual tax settlement by the Sheriff or an appointed designee. This review should include tracing amounts on the settlement to source documentation. It should also include recalculating the amounts on the settlement, checking the settlement for mathematical accuracy, and a comparison of taxes collected on the settlement to the taxes collected on the monthly reports. Such a review will strengthen internal controls over financial reporting and lessen the chance of material misstatements going undetected.

Sheriff's Response: Comment noted.

